Supreme Court of the United States

October Term, 1957.

No. 707.

WARREN PETROLEUM CORPORATION and WARREN MARITIME CORPORATION,

Petitioners,

v.

INTERNATIONAL INDUSTRIES, INC.,

Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Third Circuit.

BRIEF ON BEHALF OF RESPONDENT IN OPPOSITION TO PETITION FOR WRIT OF CERTIORARI.

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INDEX TO BRIEF.

	Page
QUESTION PRESENTED	1
STATEMENT	2
ARGUMENT	5
1. The Decision Which Petitioners Seek to Review Is Not in Conflict With the Decisions of This Court or Other Courts of Appeal, and Does Not Involve Any Question of Federal Law	5
2. The Special Master, the District Court and the Court of Appeals, All Properly Held That the Cost of Transporting Product by Rail Was the Appropriate Standard of Comparison to Be Applied to the Cost of Water Transportation by the "Natalie O. Warren"	7
3. The Court of Appeals Correctly Applied the Standard of Comparison Which Was Selected	9
CONCLUSION	12

STATEMENT.

This action was instituted by respondent to obtain equitable relief for the wrongful appropriation by petitioners of respondent's trade secrets, the plans and design for a seagoing vessel for the transportation of liquefied petroleum gas (hereinafter referred to as LPG). The Courts below found that petitioners had wrongfully appropriated respondent's trade secrets in breach of trust, which enabled them to construct the vessel "Natalie O. Warren", and which vessel the petitioners used in their business of transporting LPG (App. 57-58).[1] Federal jurisdiction was based solely upon diversity of citizenship (App. 59). The determination that there was a tortious appropriation of trade secrets by petitioners is not an issue here (Petit. Brief, p. 5).

After finding that respondent was entitled to equitable relief, the District Court denied injunctive relief because of the public interest, and referred the case to a Special Master for an accounting of the benefits obtained by petitioners from the use of the vessel "Natalie O. Warren" (App. 16-17). The Court of Appeals, pursuant to the findings of the Special Master, determined that prior to the use of the vessel, "Natalie O. Warren", petitioners sold their product f.o.b. the several points of production in Texas, which precluded their enjoyment of the vast market of the East and the Eastern Seaboard. But after the acquisition of the vessel, petitioners sold their product (LPG) f.o.b. Newark, New Jersey, which was accomplished by transporting the product from the source of supply in Texas to a terminal at Norsworthy, Texas, and then transported on the "Natalie O. Warren" to a terminal facility at Newark (App. 58). In order to determine the benefits obtained by petitioners from the use of the vessel, the Special Master found that the cost of railroad transporta-

1. Reference (App. —) refers to the appendix attached to the petition.

tion of the same quantity of LPG that was hauled in fact by the vessel during the accounting period was an appropriate standard of comparison, with which the Court of Appeals agreed (App. 59).

Both the Special Master and the Courts below rejected petitioners' contention that a different standard of comparison (either a seagoing barge or a vessel allegedly not employing respondent's trade secrets) should be used as a standard of comparison, rather than railroad. Petitioners' brief erroneously states that these alternative methods of transportation were available at the time of the appropriation (Petit. Brief, p. 7). On the contrary, the record cited by petitioners (App. 29) clearly shows this is not the case. The Special Master found (App. 29):

> The designs and plans for both were made years after the Sharp plans were appropriated by the defendants, and in addition the method of transportation used by the defendants to transport LPG from Texas to the northeastern United States prior to its appropriation of the Sharp plans was by railroad, not in any part by water."

It is also clear that these were factual findings made by the Special Master, which the Court of Appeals properly stated "should not be set aside unless they evidence clear error" (App. 59).

The petitioners' brief (pp. 8-9), in attacking the application of the rail standard of comparison made by the Court of Appeals, contains other error when it states that Warren's customers were not in Newark, and that the vessel "went to Newark only because she could swim no further, not because Newark was of any business significance". The record is to the contrary; the Special Master found (App. 51):

> "The fact is a new market was obtained by defendants due to a new method of transportation suggested

by plaintiff's plans and ideas. The further fact is the defendants continue to this day to use this method of supplying the market in the northeastern states. They have not given it up and it can only be concluded defendants consider it important to maintain this outlet for their product. " " The fact remains that defendants have used plaintiff's 'trade secret', together with its organization and its other facilities, to create a $10,000,000 market."

The Court of Appeals (App. 58) likewise found that petitioners sold their product f.o.b. Newark, New Jersey, and would not have obtained this vast market without the use of the vessel to deliver the product at Newark. In view of these findings by the Special Master and the Court of Appeals, the petitioners' statement to the effect that Newark had no significance is wide of the mark.

However, petitioners' endeavor to discount the finding that Newark, New Jersey, was significant as the market place of petitioners, which they acquired solely as a result of the tortious acquisition of respondent's trade secrets, is understandable, since it is the fact which forms the basis of the application of the standard of comparison made by the Court of Appeals. Upon this basis that the transportation of product to Newark, New Jersey, where it was sold f.o.b. by petitioners, was the result obtained by petitioners from the use of the vessel, the Court of Appeals properly held that petitioners were not entitled to add as part of the cost of water transportation, some additional cost which was sustained by others and not by these petitioners (App. 62). As the Court of Appeals stated (App. 62),

"As this method of doing business included the use of Newark as a market place to obtain the maximum benefits from the *Natalie O. Warren*, defendant cannot now complain if, in measuring the extent of those benefits, the standard of comparison is applied to that very method."

ARGUMENT.

1. The Decision Which Petitioners Seek to Review Is Not in Conflict With the Decisions of This Court or Other Courts of Appeal, and Does Not Involve Any Question of Federal Law.

As above noted, Federal jurisdiction in this case is based solely upon diversity of citizenship. It is a suit to obtain equitable relief for the tortious appropriation of trade secrets. The decision which petitioners now attack merely determined the measure of damages which should be applied in order to ascertain the benefits derived by petitioners as a result of their wrongful acts. In making this determination, the Court of Appeals merely applied equitable principles by analogy to those formerly applied in patent accounting suits before the rule in patent cases was changed by statute (App. 59). Therefore, no question of patent law or other Federal question is presented in this case, but only common law equitable principles. The application of these equitable principles is frequently found in the old cases dealing with an accounting for patent infringement, but no question under the patent laws is presented thereby, nor is any such question presented here. Likewise, there is no other question involving the Federal Constitution or any other Federal law.

The Court of Appeals cited and followed the decisions of this Court in the following cases:

> *E. I. duPont de Nemours Powder Co. v. Masland*, 244 U. S. 100 (1917);
>
> *Tilghman v. Proctor*, 125 U. S. 136, 146 (1888); *Cawood Patent*, 94 U. S. 695, 710 (1877).

The Court of Appeals likewise cited and followed the decision of another Court of Appeals in

Gisholt Turn Lathe Co. v. Ford Motor Co., 133 F. (2d) 487 (C. A. 6); affirmed 320 U. S. 714 (1943).

The decision of the Court of Appeals in this case is likewise in accord with the decisions in other Circuits with reference to the adoption and application of the appropriate standard of comparison:

Matarese v. Moore-McCormick Lines, 158 F. (2d) 631 (C. A. 2; a trade secret case);

Horvath v. McCord Radiator & Mfg. Co., 160 F. (2d) 326 (C. A. 6);

Phila. Rubber Works Co. v. U. S. Rubber Reclaiming Works, 277 F. 171 (C. A. 2).

The petitioners have not in their brief shown how the decision of the Court of Appeals here was in conflict with any decision of this Court or any other Court of Appeals. Consequently, this petition should be denied as one not meeting the requirements of Rule 19, since nothing is presented to move the Court to exercise its discretion in the circumstances presented. As this Court stated in *Magnum Co. v. Coty*, 262 U. S. 159, 163:

> "The jurisdiction was not conferred upon this Court merely to give the defeated party in the Circuit Court of Appeals another hearing."

And in the absence of any question of importance to the public as distinguished from that of the parties, there should be no occasion for the issuance of the writ.

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U. S. 387, 393;

followed in *Rice v. Sioux City Memorial Park Cemetery, Inc.*, 349 U. S. 70.

2. The Special Master, the District Court and the Court of Apeals, All Properly Held That the Cost of Transporting Product by Rail Was the Appropriate Standard of Comparison to Be Applied to the Cost of Water Transportation by the "Natalie O. Warren".

Petitioners contend that the Court of Appeals applied the wrong standard of comparison, the cost of transporting product by rail. They complain because the Special Master, the District Court, and the Court of Appeals rejected their proposed alternative standards of either a sea-going barge, or a different type vessel which had never been built but allegedly would not incorporate any of respondent's trade secrets. In this connection, the findings of fact made by the Special Master are controlling. He found (App. 25; 29; 30):

> "The plans and specifications for the sea-going barge were designed in 1951. This barge has never been built. The plans and general arrangement of the self-propelled ship with horizontal tanks were designed in 1953. This ship has never been built. The Natalie O. Warren was commissioned December 1, 1947. The first question to be considered in this connection is whether a plan for a device developed subsequent to the time of the wrongful use of a trade secret might be a legally sufficient and proper standard of comparison.
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> • • •
>
> "• • • I can only conclude that the sea-going barge and the new ship with horizontal tanks are not acceptable standards. The designs and plans for both were made years after the Sharp plans were appropriated by the defendants, and in addition the method of transportation used by the defendants to transport LPG from Texas to the northeastern United States prior to its appropriation of the Sharp plans was by railroad, not in any part by water.

"* * * The record shows that even after the sea-going barge plans were designed, the defendants choose rail transportation as the alternative to part rail and part water transportation from Texas to the northeastern United States.

"The plaintiff proposed as the standard of comparison railroad transportation, a method available at the time of the appropriation by the defendants of the Sharp plans and in fact employed by defendant in transporting LPG from Texas to the northeastern states.

"I, therefore, conclude a comparison between the two methods of transportation, on one hand by rail, on the other by part rail and part water, to be the correct approach in determining what benefits defendants obtained in using the Sharp plans."

On the facts found by the Special Master, there can be no question that rail transportation was properly adopted as the standard of comparison. As this Court stated in *DuPont Powder Co. v. Masland*, *supra*: "A defendant by its own conduct, may put itself in a position where it loses the advantage of future independent experiments." In the trade secret case of *Matarese v. Moore-McCormack Lines*, *supra*, the Court used as a standard of comparison the device used by defendant prior to the appropriation of plaintiff's trade secret. In *Horvath v. McCord Radiator & Mfg. Co.*, *supra*, the Court stated that the infringing device should be compared with what defendant could do "in using other processes then open to the public, and adequate to enable it to obtain an equally beneficial result." In *Philadelphia Rubber Works Co. v. U. S. Rubber Reclaiming Works*, *supra*, the Court said:

"Processes which were developed after the infringement as a substitute for use by the defendants cannot be used as a standard of comparison."

The foregoing authorities establish beyond question that there is no basis for the assertion in petitioners' brief (p. 13) that the test is not what has been done, but what could have been done. The case of *National Tube Company v. Mark*, 10 F. (2d) 430, cited by petitioners is no authority for the application of a different standard of comparison, since that case held that there was nothing which could be used as a standard of comparison, and thereupon decreed a reasonable royalty for a patent infringement. There is not a single case which has ever used the reasonable royalty doctrine as a measure of damages in a trade secret case. And even in a patent accounting suit, this Court has made it clear in *United States v. National Lead Co.*, 332 U. S. 319, 350 that such doctrine is used only when no standard of comparison is available.

Under the applicable authorities, and upon the facts determined by the Special Master, the Courts below were entirely correct in finding that rail transportation was the appropriate and proper standard of comparison which would achieve the same result as that accomplished by petitioners in the use of the Natalie O. Warren. The Courts below correctly rejected as standards of comparison devices which had never been used by petitioners or any other persons, and which were not even conceived until long after the appropriation of the respondent's trade secrets. Were this not the rule, there could scarcely ever be any recovery for the misappropriation of trade secrets in breach of trust.

3. The Court of Appeals Correctly Applied the Standard of Comparison Which Was Selected.

As we have pointed out in the Statement of the case, *supra*, the petitioners have erroneously sought to create the impression that Newark, New Jersey, had no significance in the use they made of the "Natalie O. Warren". We have heretofore quoted the Special Master's finding that petitioners obtained a new market worth millions of dollars which they could not have obtained without using

the vessel. We have further pointed out that the Court of Appeals found that petitioners sold their product f.o.b. Newark, New Jersey, and they would not have had this vast market without the use of the vessel. In other words, as the Court of Appeals properly determined, Newark was the petitioners' market place and it was there that they delivered the product to their customers. Notwithstanding these facts, petitioners here contend as they did in the Court below that there should be added as part of the cost of water transportation in using the "Natalie O. Warren", a cost incurred not by petitioners but by the persons who bought the product at Newark. Stated another way, petitioners contend they would have conducted their business differently if they had not wrongfully obtained the vessel. Petitioners can cite no authority to support this contention, but on the contrary all the cases agree that in applying the standard of comparison doctrine, it must be done in accordance with the manner in which the wrongdoer actually conducted its business by use of the infringing device.

This Court stated the rule in *Tilghman v. Proctor*, 125 U. S. 136, 151, as follows:

> "In determining that question, the expense of using the new process is doubtless to be ascertained by the manner in which the defendants have in fact conducted their business, and not by the manner in which they might have conducted it."

This Court also rejected the same contention as the one petitioners now urge in *In re Cawood Patent*, 94 U. S. 695, where the Court said:

> "This argument is plausible but it is unsound."

All of the courts which have had occasion to apply the standard of comparison doctrine have done so by applying it to the same result achieved by the wrongdoer in using the appropriated device. In *Webster Loom Co. v. Higgins*, 43 F. 673, the Court stated the rule as follows:

> "In such infringement it is immaterial what profits the infringer made in his business, or from his manner of conducting it; but the expense of using the process or machine over that of using one open to the public is to be ascertained by the manner in which he has conducted his business, and not by the manner in which he might have conducted it."

Notwithstanding petitioners' literary allusions, the Court of Appeals was merely following this Court and all the other adjudicated cases when it held (App. 62):

> "As this method of doing business included the use of Newark as a market place to obtain the maximum benefits from the *Natalie O. Warren*, defendant cannot now complain if, in measuring the extent of those benefits, the standard of comparison is applied to that very method."

Therefore, the Court of Appeals correctly applied the standard of comparison doctrine in this case, to reach the same result by the method selected as the standard of comparison to the result obtained by petitioners in their wrongful use of the vessel.

CONCLUSION.

The Court of Appeals was clearly correct in its decision below, and it is not in conflict with the decisions of this Court or of other Circuit Courts. Moreover, there is no Federal law involved here and no matter of public importance is presented. Accordingly, the petition for writ of certiorari should be denied.

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No. 705

Supreme Court of the United States

REPLY BRIEF FOR PETITIONERS

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OCTOBER TERM, 1957

No. 707

WARREN PETROLEUM CORPORATION and WARREN MARITIME CORPORATION,

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Respondent

REPLY BRIEF FOR PETITIONERS

The Brief in Opposition is noteworthy for what it omits. Nowhere does it come to grips with the legal issues which require this Court's determination. Rather, it seeks to minimize their significance by casting them in a factual mold and insinuating that, in any event, this is simply another diversity case.

1. The suggestion that federal law is not involved in these damage questions seems particularly odd, for, as the Court of Appeals noted, "the parties have relied wholly upon federal precedents" (Appendix, p. 59, n. 1). This reliance upon federal law is based upon the fact, also acknowledged by the court below, that with regard to damages the law of trade secrets and the law of patents are virtually indistinguishable. De-

cisions in one field are commonly invoked and followed in the other. So in this case, when the Court of Appeals' decision is contrary to decisions of this Court and of other Courts of Appeals applying principles of patent law, it can hardly be said that "only common law equitable principles" are at stake (Brief in Opp., p. 5). Unless this Court, the sole forum where such conflicts can be resolved, agrees to grant review, confusion must necessarily spread to an important field of federal statutory law.

Respondent endeavors to avoid this fact by implying that, because of a 1946 amendment to the patent statutes, 60 Stat. 778, the standard of comparison method of measuring damages is no longer applicable to patent cases (Brief in Opp., p. 5). This simply is not so, as respondent itself concedes a few pages later by stating:

> "And even in a patent accounting suit, this Court has made it clear in *United States* v. *National Lead Co.*, 332 U.S. 319, 350, that such [reasonable royalty] doctrine is used only when no standard of comparison is available." (Brief in Opp., p. 9)

In the *National Lead* case, the Court, after discussing the 1946 amendment, explicitly recognized the continuing vitality of the standard of comparison method.

2. Equally misleading is respondent's effort to pass off as a finding of fact the decision below that *Gordon Form Lathe Co.* v. *Ford Motor Co.*, 133 F.2d 487 (6th Cir. 1943), *aff'd by an equally divided court*, 320 U.S. 714, precluded the consideration of either barge or hori-

zontal tankship as a standard of comparison. And the assertion that "Petitioners' brief erroneously states that these alternative methods of transportation were available at the time of the appropriation" (Brief in Opp., p. 3) is merely respondent's own legal conclusion and not, as respondent would have it, a matter of fact. The Petition for Certiorari did not dispute that no formal designs for those methods was in existence at that time. But since the evidence was also uncontroverted that such designs could have been made and the vessels constructed at the relevant time, the Petition maintained that, under the *Gordon* case and *Tidewater Co.* v. *Proctor*, 125 U.S. 136, these methods were "available" as a matter of law and should have been considered below. Significantly, respondent's discussion of this issue utterly fails to deal with either of these decisions, despite the fact that the Petition for Certiorari demonstrated that the Court of Appeals' decision is in conflict with both of them (Petition, pp. 12-14).

3. Perhaps the most topsy-turvy portion of the Brief in Opposition is its invocation of the Master's Report to support the Court of Appeals' conclusion that "the result sought [by Warren] was the most inexpensive means of transportation to Newark" (Appendix, p. 62). The quotation excerpted from the Master's Report (Brief in Opp., pp. 3-4) is from a discussion of the LPG market *in the northeastern states*, which the Master specifically found *not to be at Newark*, the f.o.b. point, but at the plants of Warren's customers. Unlike the Court of Appeals, the Master looked through form to substance and properly refused to make his

decision turn upon whether the customer paid part of the freight directly or whether he paid it indirectly as part of the purchase price.

Like a bird feigning a broken wing, to divert attention from her chicks, respondent continually diverts with irrelevancies attention from what actually was done below. Respondent's repeated insistence "that in applying the standard of comparison doctrine, it must be done in accordance with the manner in which the wrongdoer actually conducted its business by use of the infringing device," (Brief in Opp., p. 10), belabors a point which is nowhere denied or doubted in the Petition for Certiorari. What is at issue is the Court of Appeals' entirely unwarranted determination that Newark, which was merely a transfer point on the route from Texas to the customer, was Warren's desired destination and that Warren would have committed commercial suicide by shipping 132,000,000 gallons of LPG to Newark by rail had the NATALIE been unavailable during the accounting period.

Nothing can obscure the fact that the court below erred in applying the standard of comparison method. The result it achieved is plainly absurd and intolerably unjust. Under the decision below respondent may lay claim to a recovery running well into millions of dollars as "compensation" for the appropriation of a trade secret that was offered to Warren for $5400 and was developed at the cost of, at most, $40,000. The Brief in Opposition does not try to refute the obvious conclusion that a standard that could yield such results is one that would never have been

used by the infringer and should never have been selected by the court. That the decision below is flatly contrary to *Gordon Form Lathe Co.* v. *Ford Motor Co.*, *supra*, in this regard is apparently without significance to respondent, for the Brief in Opposition again ignores what it would be difficult to refute.

4. The refusal of the Court of Appeals to affirm the District Court's award of a reasonable royalty in these circumstances is wholly indefensible. It is unfortunate that respondent, conceding the propriety in patent cases of a recovery based upon the reasonable value of the use of the appropriated device, should state that "There is not a single case which has ever used the reasonable royalty doctrine as a measure of damages in a trade secret case." (Brief in Opp., p. 9). This is simply a play upon the word "royalty", which, as a technical term, is not used in trade secret cases. But in one of the very cases relied on by respondent, *Matarese* v. *Moore-McCormack Lines*, 158 F.2d 631, the Court of Appeals held that:

> "The judge properly charged that recovery must be based upon the 'reasonable value of the use' of the devices and the 'reasonable value of the services' rendered by the plaintiff." (p. 635)

This is precisely the recovery that the Master and District Court awarded in this case, mindful that the "result should not be an unreasonable one which leads to hardship, injustice or absurdity." *Gordon Form Lathe Co.* v. *Ford Motor Co.*, *supra*, at 497.

CONCLUSION

Respondent's Brief in Opposition in no way responds to the issues presented by the Petition for Certiorari. It remains clear, first, that the decision below is absurd in result; second, that in reaching such a result the Court of Appeals came in direct conflict with both *Tilghman* v. *Proctor, supra*, and the decision of the Sixth Circuit in *Gordon Form Lathe Co.* v. *Ford Motor Co., supra;* and third, that this decision, if allowed to stand, will be disruptive in both trade secret and patent litigation. Respondent's studied failure to meet these issues highlights the fact that the decision of the Court of Appeals is plainly wrong and that respondent has no adequate basis to defend it. In this situation, the administration of justice will best be served if this Court summarily reverses the decision below and reinstates the judgment of the District Court. In the alternative, should oral argument be desired, the case may be placed on the summary docket.

Respectfully submitted,

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